



July 28, 1988

The Honorable Art Wang  
Chairman  
House Commerce and Labor Committee  
House Office Building  
CAMPUS MAIL STOP AS-33

<b>DEFENDANT'S EXHIBIT</b>	
CASE NO.	C04-0360P
EXHIBIT NO.	505

Dear Chairman Wang:

At the June 24 meeting of your Committee, questions were posed as to the profitability of the Board's beer and wine sales. I hope the following explanation will provide response to that series of questions.

The Board sells seven different malt beverages within the retail stores. All of these are 4.4 percent alcohol by volume or above, products not normally carried by most of the private retail sector. The Board has had a demand for these products in the past, therefore continues to carry the products in order to provide service to the customers.

Total beer sales in fiscal 1987 amounted to 186,311 gallons which represents approximately .19 percent of the total sales of beer within the state for the corresponding period of time. The gross profits thereon amounted to \$378,936 and an additional \$70,125 in applicable sales taxes.

The Board's wine sales during fiscal 1987 came to 1,802,967 gallons which represents 10.66 percent of the total sales of wine within the state. Gross profit amounted to \$5,695,725. The wine excise tax amounted to \$1,484,498 and the sales taxes added another \$1,428,815.

I discussed profitability with Jim Hoing, Board Controller. He reminded me of Special Report No. 83-3 of the Legislative Budget Committee, dated August of 1983, in the conclusion section:

The analysis shows that cost allocation techniques and amount of cost charged to wine and strong beer is unimportant. The prime consideration is what amount of cost can be eliminated if the state no longer sold the products.

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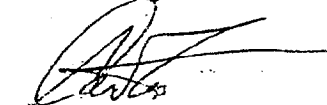
The analysis for fiscal 1987 shows that \$2,046,071 of Merchandising and Administrative expenses could be discontinued if the Board went out of the beer and wine business. However, the following may illustrate that this is not as desirable as one might believe at first glance:

Gross Profit on Beer and Wine Sales	\$6,074,661
* Expenses That Could be Discontinued	2,046,071
	=====
Net LOSS in Revenue	\$4,028,590

The net LOSS IN REVENUE approximates the amount of money appropriated to the Department of Social and Health Services from the class H liquor license fees during the same period of time. In other words, the reduction in revenue would be substantial. While the products would still be sold (by the private sector) the state, cities and counties would not share in the \$4 million of revenues generated by the sales of the products through the Board's store system.

Should there be further questions, please do not hesitate to contact this office for responses.

Sincerely,



M. CARTER MITCHELL  
Information Officer/  
Legislative Liaison

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